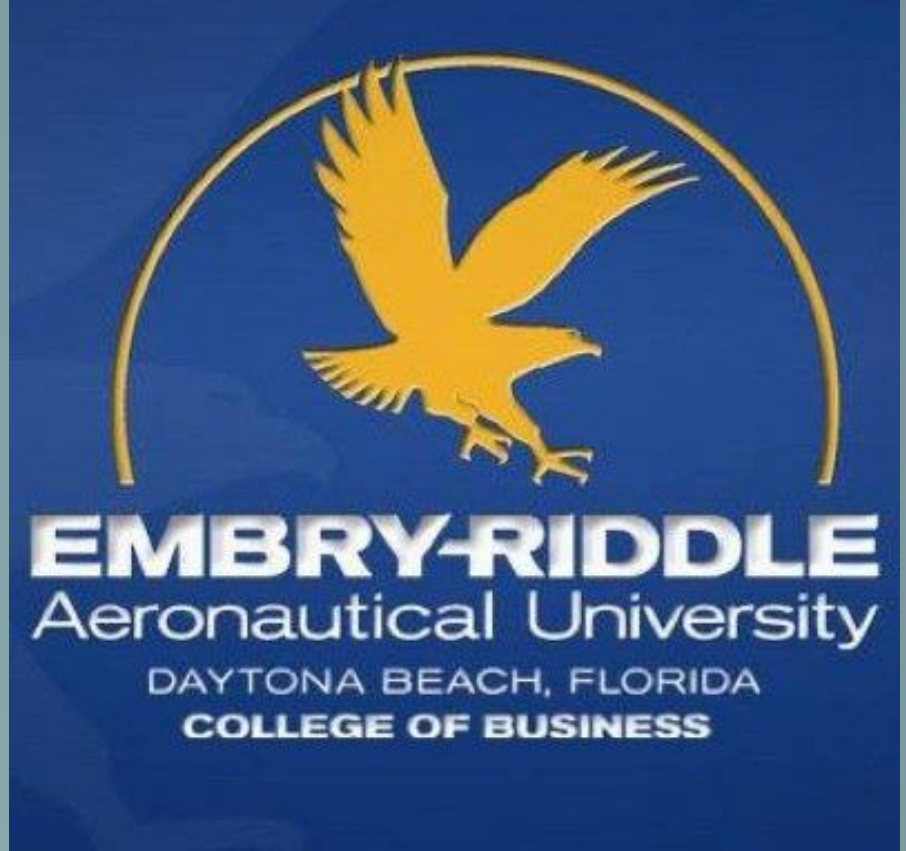




The Fall of Republic Airways (RJET)

Karim Guirguis & Tavaris Jackson Owens

Advisor: Dr. Jayendra Gokhale

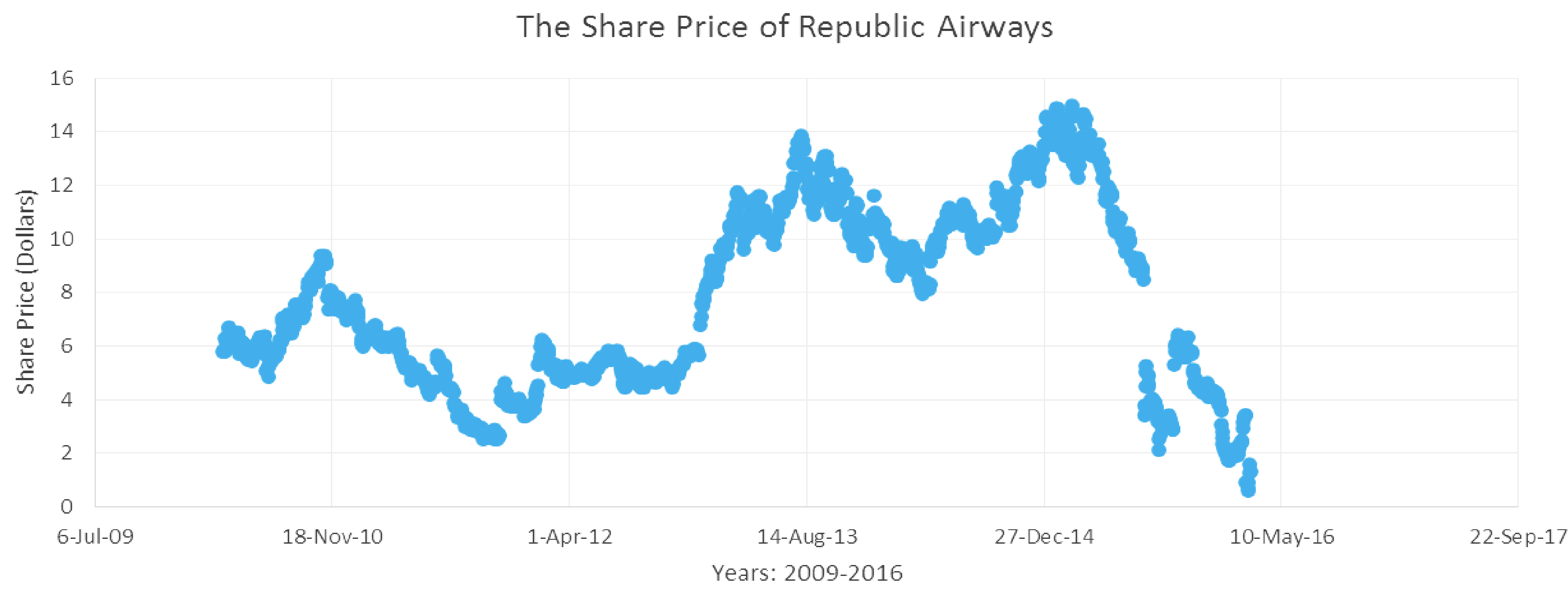


Introduction:

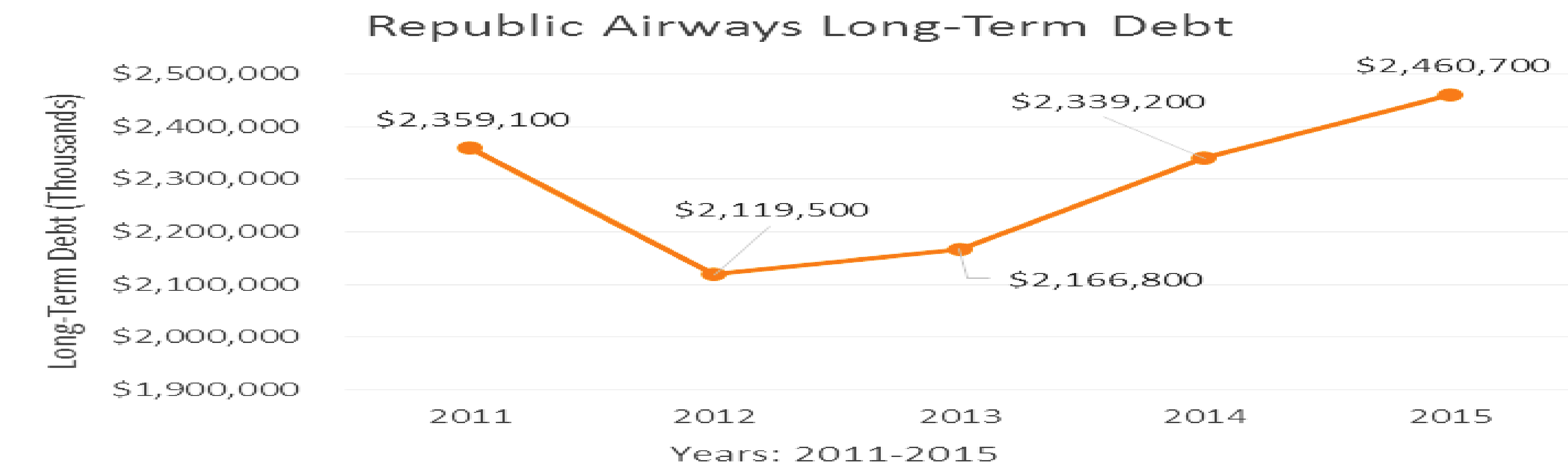
Republic Airways is a regional airline that operates through contracts under major carriers such as United Delta and American. The Indianapolis based airline reached an agreement with its pilot union that was eight years in the making. This deal created industry leading pay. Consequently, the union helped curtail the exodus of seasoned pilots. The deal was also meant to influence young pilots to work for the company. However, while it was a step in the right direction, it was too late. The company has lost a staggering 40 pilots per month, and were only able to hire 30. This in turn left several jets unused and created substantial losses for the company. Unable to follow its obligations, the company filed for Chapter 11 Bankruptcy on February 25, 2016, citing the pilot shortage and plunging revenues due to its aircraft groundings. Republic hopes that it can renegotiate its contracts with major carriers and the pilot union to improve its financial position. While the company’s filing was surprising to most, it was not unexpected. This research reviews the financial situation of the company to determine how it arrived at its current position, and to determine what steps the airline should take next, so that in the near future it can deliver on its promise of restoring its profitability for the long term.

References:

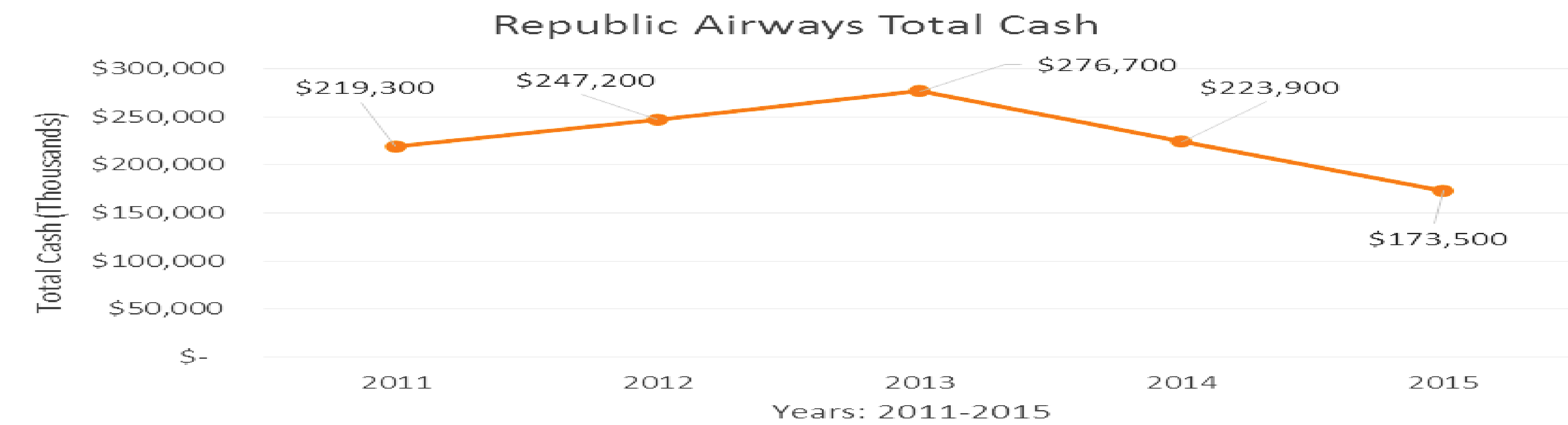
<http://amigobulls.com/stocks/RJETQ/balance-sheet/annual#>
<http://www.mergentononline.com/companyfinancials.php?compnumber=108860>
<http://www.fool.com/investing/general/2015/11/11/republic-airways-holdings-inc-remains-full-of-risk.aspx>



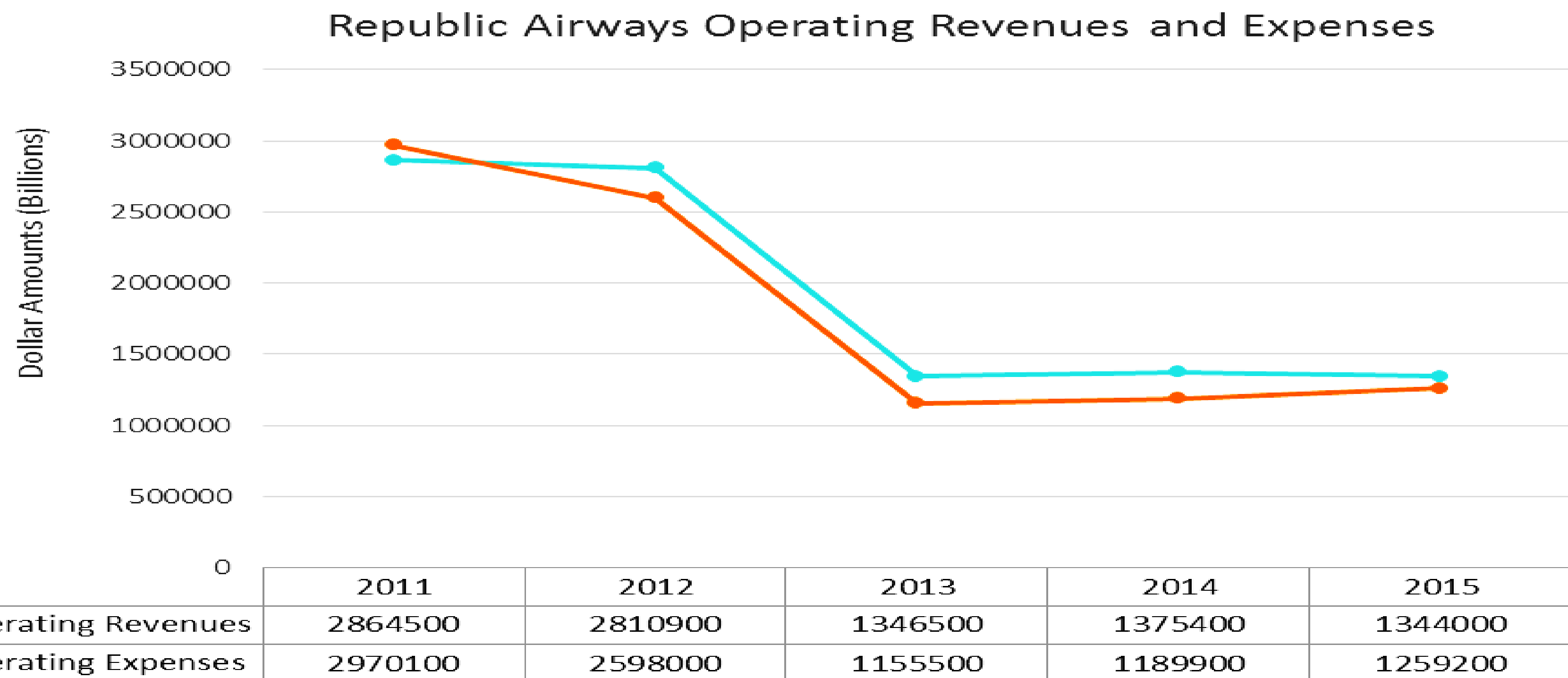
A period of mergers, restructuring and excess capacity led to a fluctuation in share prices of RJET over the period of 2009-2016.



During 2011-2012, Republic Airways was able to cut down their long-term debt by \$239 million. However, between 2013-2015 their long term debt more than doubled to approximately \$2.46 Billion. Republic Airways has one of the highest long-term debt (~\$2.03 Billion) when compared to its competitors. GOL Airlines have \$2.0 Billion of debt, Copa Airlines have \$1.06 Billion of debt, Alaska Airlines have \$571 million of debt, and SkyWest Airlines have no long-term debt as in the year of 2015.



From 2011-2013, Republic Airways cash was increasing at a steady rate. The company’s total unrestricted cash increased by \$57.4 Million from 2011-2013. However, in the years of 2014-2015, the company’s cash flow began to recede and one of the main reasons behind this decrease was the increase of fleet of the 19 E175 aircrafts that Republic Airways invested in back in 2014, as well as the slight increase of pilot wages. Republic Airways was losing about 40 pilots per month, while only adding 30 pilots in 2016 (Bloomberg, 2016).



95% of Republic Airways revenue come from fixed fee service, which consists of both charter and passenger operations. In addition, Over the five-year period from 2011-2015, Republic Airways was able to cut their operating expenses in Fuel, Landing fees, Insurance, Promotion and Sales, and Impairment charges. However, their overall Pilot wage average is 27% of their operating cost, Maintenance is 20% of operating costs, and Depreciation and Amortization is 14% of their operating costs.

Methodology

Republic airways, known in the financial sector as RJET commanded our attention when they declared bankruptcy in February of 2016. As students of business we wanted to know how an airline which recently increased its pay for its pilots suddenly came into trouble. After searching financial news websites and researching the company's balance sheet and cash flow statements, we discovered that the company planned to file for chapter 11 bankruptcy. Looking at its debts and long term liabilities and linking them with the company’s current affairs through news sources, we realized Republic did this so they can restructure their contracts with the major carriers (which is the company’s life and blood) suppliers; as well as possibly with pilots union. If this successfully occurs then the company’s financials will be stronger and leaner once it exits Chapter 11.

Discussion

The financials of a company always tell the truth of a company’s health. It seems that while some outside factors like the pilot shortage and flying turbo prop aircraft contributed to the company’s financial trouble, they were not the sole reason. Republic also followed a path of accumulating long term liabilities and large amounts of debts. In essence, the increase in long-term debt should indicate a increase in future revenues. However, this did not seem to materialize for the company leading to a Chapter 11 filing.

